



WEEKLY ECONOMIC DIGEST

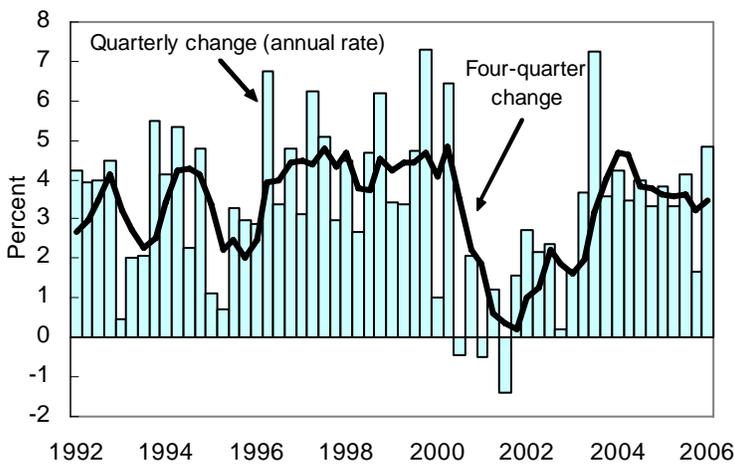


JOINT ECONOMIC COMMITTEE – DEMOCRATIC STAFF
SENATOR JACK REED (D-RI) – RANKING DEMOCRAT

May 2, 2006

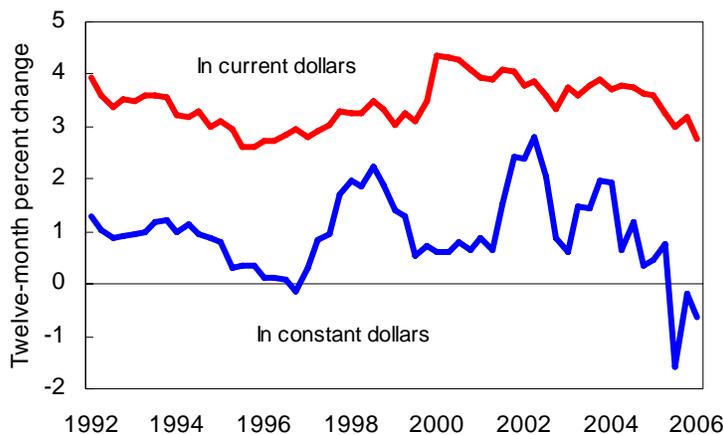
Economy Rebounds but Compensation Paid to Workers Lags Inflation

Growth of Real Gross Domestic Product



Source: Bureau of Economic Analysis, U.S. Department of Commerce.

Employment Cost Index for Civilian Workers



Source: Bureau of Labor Statistics, U.S. Department of Labor and JEC staff calculations.

Note: The constant dollar series reflects an adjustment of the ECI for inflation in the consumer price index (research series).

- **The economy rebounded in the first quarter.** Real (inflation-adjusted) gross domestic product (GDP) grew by 4.8 percent at an annual rate in the first quarter to a level 3.5 percent higher than it was a year earlier (see top chart). The rebound was widely anticipated following a tepid 1.7 percent gain in the fourth quarter. Over the last two quarters, growth of real GDP averaged 3.2 percent at an annual rate, and most forecasters expect growth to be near that average in coming quarters.
- **Personal saving again was negative in the first quarter.** A high level of personal consumption in the first quarter contributed to the rebound in real GDP. However, it also contributed to a drop in the personal saving rate to -0.5 percent from -0.2 percent in the fourth quarter. Consumption growth has moderated in the last two months, with real personal consumption expenditures rising just 0.2 percent in both February and March.
- **Growth of compensation paid to workers slowed over the first quarter.** The employment cost index (ECI) for civilian workers—a measure of employee compensation that includes both wages and benefits—rose by 0.6 percent over the first three months of the year, compared with a 0.8 percent gain over the previous three months. The ECI was 2.8 percent higher in March than it was a year earlier. However, the consumer price index rose more, and real ECI compensation was 0.7 percent below its level in March 2005 (see bottom chart).
- **Existing home sales edged up in March, but housing continues to show signs of cooling.** Total sales of existing homes (which includes single-family homes, townhouses, condominiums, and co-ops) grew by 0.3 percent last month to an annual rate of 6.920 million units. However, sales were 0.7 percent below their level a year earlier. The median price of an existing single-family home was \$217,300 in March, up 7.8 percent from a year earlier but the lowest 12-month appreciation in nineteen months.

The Economy at a Glance	Apr	Mar	Feb	Jan	2006 Qtr 1	2005 Qtr 4	2005 Qtr 3	2005 Qtr 2	2005	2004
Economic Activity										
Real GDP (% growth)	—	—	—	—	4.8	1.7	4.1	3.3	3.5	4.2
Industrial Production (% growth)	n.a.	7.4	6.2	-4.7	4.5	5.3	1.4	1.6	3.3	4.1
Capacity Utilization (level, %)	n.a.	81.3	81.0	80.7	81.0	80.5	79.8	79.9	80.0	78.6
Civilian Unemployment Rate (level, %)*	n.a.	4.7	4.8	4.7	4.7	5.0	5.0	5.1	5.1	5.5
Housing Starts (thousands)	n.a.	1960	2126	2307	2131	2059	2101	2044	2072	1950
Real Disposable Personal Income (% growth)	n.a.	6.2	2.4	0	3.8	6.7	-1.4	0.2	1.4	3.4
Retail Sales (% growth)	n.a.	7.8	-9.3	43.2	13.4	1.9	8.5	9.5	7.2	6.2
Personal Saving Rate (level, %)	n.a.	-0.3	-0.6	-0.6	-0.5	-0.2	-1.6	-0.2	-0.4	1.8
Inflation & Productivity										
CPI-U Inflation, all items (% growth)	n.a.	4.9	1.2	8.7	2.2	3.2	5.5	3.7	3.4	2.7
Core CPI-U Inflation (% growth)	n.a.	3.7	1.2	2.4	2.4	2.4	1.6	2.0	2.2	1.8
Employment Cost Index (% growth)	—	—	—	—	2.4	3.2	3.2	2.8	3.3	3.7
Output per Hour (% growth)*	—	—	—	—	n.a.	-0.5	4.2	2.4	2.9	3.4
Financial Markets										
T-bill Rate, 3-month (level, %)	4.60	4.51	4.43	4.24	4.39	3.83	3.36	2.86	3.15	1.37
T-note Rate, 10-years (level, %)	4.99	4.72	4.57	4.42	4.57	4.49	4.21	4.16	4.29	4.27
Federal Funds Rate (level, %)	4.79	4.59	4.49	4.29	4.46	3.98	3.46	2.94	3.22	1.35
Dow Jones Industrial Avg (index level)	11235	11144	10971	10872	10996	10616	10544	10382	10548	10317

Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Bureau of the Census, U.S. Department of Commerce; Bureau of Labor Statistics, U.S. Department of Labor; Board of Governors of the Federal Reserve System; Wall Street Journal; and Haver Analytics.

Notes: Except where otherwise noted, values in the table represent percentage growth measured at seasonally adjusted **annual** rates. Growth in retail sales includes food services. Core CPI-U inflation is the percentage change in the CPI-U excluding food and energy as reported by the Bureau of Labor Statistics. The Employment Cost Index is for civilian workers. Productivity is output per hour for private nonagricultural establishments. The 3-month Treasury bill rate is the secondary market rate.

n.a. Denotes that data are not yet available.

* Subject to revision over the next week.

Upcoming Economic Releases:

- **Full Report on Manufacturers' Shipments, Inventories and Orders: March 2006** [Release: Wednesday, May 3]
- **Productivity and Costs: First Quarter 2006 (Preliminary)** [Release: Thursday, May 4]
- **The Employment Situation: April 2006** [Release: Friday, May 5]
- **Consumer Credit: March 2006** [Release: Friday, May 5]